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Mr Andreas Barckow
Chairman
International Accounting Standards Board
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By e-mail only - commentletters@ifrs.org

25 September 2023

Re: Request for Information – Post-Implementation review IFRS 9 *Financial Instruments* Impairment

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Request for Information – Post-Implementation review IFRS 9 *Financial Instruments* Impairment ("RFI")

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the RFI are set out in the appendix to this letter.

We would like to highlight that we do not believe there are any major fundamental flaws in the impairment requirements of IFRS 9 *Financial Instruments*, however in our view there is scope for enhancement of some of the requirements and areas where the inclusion of additional implementation guidance would be beneficial.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon
Global Leader, Quality & Risk
RSM International

APPENDIX

Question 1—Impairment

Do the impairment requirements in IFRS 9 result in:

(a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?

(b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?

When applied correctly we have observed that the impairment requirements of IFRS 9 result in more timely recognition of credit losses compared to IAS 39. The requirements to consider forward looking factors as well as the economic environment and to assess all applicable financial assets, not only those that have experienced an impairment event, ensures entities are recognising credit losses earlier.

In our experience, the impairment requirements of IFRS 9 do result in most entities providing more useful information about the effect of credit risk on the amount, timing and uncertainty of future cash flows. However, we have observed variability in the method and quality of the application of the measurement and disclosure requirements which can limit the usefulness of the information presented. This is particularly observed outside of the financial services sector as many entities may not have access to the same level of information, that for example those in the banking sector do, in order to assess the credit risk and changes in credit risk of customers or to incorporate forward looking economic information; this is reflected in the quality of the related disclosures. We believe that enhanced guidance related to the impairment mechanisms applied and disclosure requirements of IFRS 9 and IFRS 7 would be welcomed by entities outside the financial services sectors.

Question 2—The general approach to recognising expected credit losses

(a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?

(b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

We have not identified any fatal flaws regarding the general approach to recognising expected credit losses.

Other than our response to Question 5b), we do not have any comments on the costs of applying or auditing the general approach to recognising expected credit losses.

Question 3—Determining significant increases in credit risk

(a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?

(b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?

We do not consider there to be any fatal flaws in relation to the assessment of significant increases in credit risk.

However, the principle based-approach the IASB has developed with regards to assessment of significant increases in credit risk does not prescribe a specific or mechanistic approach to assess changes in credit risk. We believe that this is appropriate, given the widely varying types of assets and sophistication of entities applying IFRS 9 and assessing whether significant increases in credit risk has occurred. However, this approach assumes that credit risk has been considered and incorporated into the pricing of the particular financial instrument, which is not always the case for some assets, for example inter-company financial assets. The application of the ECL model to receivables with related parties or commonly controlled entities is challenging in practice due to the lack of comparable data for this assessment.

Furthermore, we believe there are widely varying interpretations of what is meant by 'significant'. This requires application of judgement by entities making it difficult, in some cases, to assess whether the requirements have been applied consistently, particularly for entities where there is a greater focus on qualitative rather than quantitative factors. While to some extent this interpretation is entity dependant, we believe it would be beneficial to have additional guidance on the determination of what is 'significant', in addition to the considerations in IFRS 9.B5.5.5.

Question 4—Measuring expected credit losses

(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

(b) Can the measurement requirements be applied consistently? Why or why not?

We do not believe there are any fatal flaws in the requirements for measuring expected credit losses (ECLs).

However, we believe there is a lack of consistency in the measurement requirements of IFRS 9 for expected credit losses. While measurement of expected credit losses is judgemental, we have observed a lack of consistency in the application of the standard to forward looking information, overlays and post model adjustments including disclosure of the associated judgment. We believe that the lack of clear guidance for entities on the application of the requirements, has resulted in diversity in practice and leads to a lack of comparability. Furthermore, we believe that the inclusion of examples and implementation guidance on the required disclosures would enhance consistency and comparability.

We believe that application of the standard in measuring expected credit losses is often more robust in entities for whom an ECL is built into business models whilst for other entities application of the standard is challenging. While banks, for example, obtain economic reports areas such as expected downturn and expected changes in specific economic indicators, outside of the banking sector there is a lack of clear methodology. Therefore, we believe that the standard would benefit from enhanced practical application guidance, including forward model adjustments, possible sources of data and how a compliant model should incorporate the impact of the economic environment.

As noted in our response to question 3(b), there are some types of financial asset, particularly those with related parties or commonly controlled entities, where credit risk may not be built into the pricing but are required to apply the general approach. For such assets an option to apply the simplified approach may work better and provide more consistent and meaningful results, particularly as there is a lack of relevant or comparable data for the application of the general approach.

Question 5—Simplified approach for trade receivables, contract assets and lease receivables

(a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions?

(b) Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

We have not identified any fatal flaws to the simplified approach for trade receivables, contract assets and lease receivables.

However, we believe that some entities have encountered challenges in ensuring that their interpretation and application of the simplified approach results in an expected credit loss being determined, as opposed to a modified incurred credit loss approach. This applies to the incorporation of forward-looking information in particular.

The inconsistency of application is compounded when moving away from more sophisticated entities. Large listed entities can develop or purchase sophisticated models with forward looking adjustments and post model adjustments to ensure their application of the simplified approach results in an expected credit loss methodology being applied. However, other entities are not always able to develop or purchase such models. We believe that further examples and application guidance would improve overall quality of expected credit losses for these categories of assets, while maintaining the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables.

The costs of auditing the simplified approach are often higher than expected and it can be a challenge to obtain the data and information required to do so. There is often difficulty in obtaining the audit evidence to support an entity's forward-looking adjustments and to verify those assessments.

Question 6—Purchased or originated credit-impaired financial assets

Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not?

In our experience, while the requirements of IFRS 9.5.13-14 can be applied consistently to identified purchased or originated credit-impaired assets, the judgement involved in identifying whether an asset is a purchased or originated credit-impaired asset is subject to judgement resulting in inconsistent application. While IFRS 9.5.13-14 can clearly be applied to purchased credit impaired financial assets with the help of the guidance regarding 'deep discounts in IFRS 9.B5.4.7, it is only in IFRS 9.BC5.216, that guidance is provided regarding the 'rare situation' of originated credit impaired assets. While origination of a credit impaired asset may be considered rare, we believe that enhanced implementation guidance for this and for purchased credit impaired assets would improve the consistency of application of IFRS 9.5.13-14 by aiding identification of and methodology for calculation of impairment for purchased or originated credit-impaired assets.

Question 7—Application of the impairment requirements in IFRS 9 with other requirements

Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not?

In our experience, there are often questions raised by entities on the links between expected credit losses, effective interest rates ('EIR'), purchased or credit impaired assets and IFRS 15 related balances, for example contract assets.

Furthermore, for entities outside the financial services sector, there are conflicting principals and concepts in respect of recoverability of receivables. Under IFRS 15, revenue from contracts with customers is only recognised if it is recoverable. However, the IFRS 9 simple model for ECL's for trade receivables and contract assets, requires the simplified ECL model to be applied to trade receivables and contract assets, resulting in recognition of ECL's.

We believe that clarity on the interaction of these elements within IFRS 9 and IFRS 15 would aid entities in their application of the standards. For example, the inclusion of guidance on how contract assets incorporate expectations of credit losses on origination and how this then flows into applying the ECL requirements of IFRS 9.

Entities often struggle with EIR and ECL calculations, particularly as the interactions between the two are not clear, we would welcome the inclusion of guidance on this and disclosure of associated judgements.

Question 8—Transition

Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected?

As noted in our response to question 5(b), the cost of auditing the transition requirements were higher than expected.

Question 9—Credit risk disclosures

(a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?

(b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?

We do not consider there to be any fatal flaws in relation to the disclosure requirements in IFRS 7 for credit risk.

However, we believe there is inconsistent application of the disclosure requirements, in particular with regards to:

- Determining significant increases in credit risks
- Post model adjustments or management overlays
- How forward-looking adjustments have been incorporated into the model
- Sensitivity analysis

We would welcome further detailed guidance on how the disclosure requirements already encapsulated in IFRS 7 apply to the areas above and believe this would assist entities to providing the appropriate level of disclosure.

We do not have any comments on the costs of auditing the disclosure requirements in IFRS 7 related to credit risk.

Question 10—Other matters

(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of the impairment requirements in IFRS 9? If yes, what are those matters and why should they be examined?

(b) Do you have any feedback on the understandability and accessibility of the impairment requirements in IFRS 9 that the IASB could consider in developing its future IFRS Accounting Standards?

We have no further matters that we think the IASB should examine, other than those set out in the responses to questions 1-9 above.

We do not have any comments on understandability and accessibility of the impairment requirements in IFRS 9.

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